Environmental Accounting: A Tool For Sustainable Development In Nigeria

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Abstract

The activities of man within the environment are becoming obvious as the days go by. This can be seen as the weather conditions are changing and the seasons in the country no longer obey the traditional rule of six months wet and six months dry seasons. Experts say it is as a result of the depletion of the ozone layer. This paper takes a look at the need for organizations to account for the effect of their organizational activities on the environment. The limitation of the traditional accounting method and the benefits derivable from environmental accounting were highlighted. Also, adequate recommendations were made to ensure a sustainable development through environmental accounting.

Introduction

Man as a rational being has always wanted to maximize his output within his environment. This desire leads to man's various activities such as production of goods and services, ensuring good and adequate accommodation, urban development etc. However, man's recent activities within the environment have resulted into resources depletion and environmental degradation. These activities have further led to the depletion of the ozone layer, thereby causing an imbalance in the environmental system.

Consequently, the increasing concern about environmental degradation, resource depletion and the sustainability of economic activity have made the development of natural resource and Environmental Accounting and reporting an area of significant activity in both developed and developing countries. This paper therefore x-rays the need for organizations to account for the impact of their activities within the environment. This is necessary as such accountability will help to bring to consciousness the need to protect our environments and natural resources. It will also ensure that adequate measures are put in place to ensure a rejuvenation of our environmental resources.

Literature Review

The term "Environment Accounting" has been defined variously by different authors. Kelly (1981) is of the view that Environmental Accounting involves the provision of financial and Non-financial information relating to the environment and other items.

Corner (2006:7) on his own defines Environmental Accounting "as any form of accounting involving the collection, recording and reporting of internal and external information about the financial and non-financial impact of organizational activities upon individuals, society and the physical environment".

Yakhou and Dorweiler (2004:65) however gave an all embracing definition. They defined Environmental Accounting as "an inclusive field of accounting that provides reports for both internal use, generating environmental information to help make management decisions on pricing, controlling overhead and capital budgeting and disclosing environmental information of interest to the public and to the financial community"

From the contributions of the above authors, it can be inferred that Environmental Accounting is an extension of the conventional financial accounting. The development of Environmental Accounting was as a result of the limitation of conventional accounting to measure and account for resources that don't only affect the financial stakeholders but also the non-financial stakeholders such as the society and environment.

Wells (2005:7) lists the limitations of conventional accounting as:

1. Financial Accounting focuses on the information needs of those parties involved in making resource allocation on decisions about the entity. This therefore limits access to information by people who are impacted outside the financial parameters of the entity.
2. The basic principle of "Materiality" in conventional accounting has tended to preclude the reporting of environmental information, given the relative difficulty of identifying and quantifying some categories of environmental costs and benefits.
3. The recognition criteria of financial accounting require an item to have a cost or other values that can be measured financially and reliably. Hence, most attempts to assign value to external environmental impacts move quickly into estimates with their associated controversies concerning methodology

4. In conventional accounting, expenses are defined to exclude the recognition of any impacts on resources that are not controlled by the entity unless fines or other cash flow result.
5. Conventional accounting does not assign monetary costs to the consumption of natural resource such as air, water and land fertility.

Also, the development of Environmental Accounting became necessary due to the following:

1. Consumer concerns over environmental safety and health.
2. Consumer preferences for environmentally friendly products and services.
3. Increased awareness and understanding of community members on environmental issues and implications of some corporate activities for their environment.
4. Environmental laws and regulations issued by the government or environmental agencies making it mandatory for the disclosure of their environmental activities.
5. Environmental damages caused by the operational activities of some companies. An example of this is the case of the Niger- Delta Area where their major sources of livelihood and environment have been damaged by the companies there.

To overcome these deficiencies, a new accounting approach was developed that would begin to internalize the external environmental impact of an entity.
A lot of empirical studies have been carried out on environmental accounting in developed countries while little of such studies are being carried out in developing countries.

In a research conducted by Gamble, Kite and Radtke (1995); on the "quality of Environmental Disclosure in the Annual Report of companies in UK". It was discovered that there was significant increase in environmental disclosure in annual reports. While in another study conducted by Deegen and Rankin (1996), on "Environmental Disclosure made by firms which had been successfully prosecuted by the Australian Environmental protection Agency". The researchers discovered that Australian companies willingly provide information favourable to their image even after prosecution. Walden and Schwartz (1997), conducted a research on changes in the level of environmental disclosure following the 1980 Exxon Valdex oil spill, the researchers interpreted the results as showing that environmental disclosure was time and event specific made in the self interest of the firm following perceived public policy pressure.

Some researches have also been conducted in developing countries and they include:

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'The Accounting disclosure of social and Environmental Activities of Jordanian companies by Alkdahash (2004). His findings show that 74% of the companies in the study sample disclosed social and environmental activities.

Recently in Nigeria, in a research conducted by Omokhudu (2007), on "Environmental Disclosure of Companies in the Nigeria Stock Exchange", it was also discovered that only few of the sampled companies disclosed their social and environmental activities.

Why should Companies Report their Environmental Activities?

There are several reasons why environmental issues should be incorporated into the companies' Annual Reports. Some of them as stated in Omokhudu (2007); include

1. Environmental Accounting may lead to the avoidance of penalty or fines imposed by Environmental Protection Agency in the countries where such legislation exists.
2. Environmental Accounting Promotes research and development which will eventually translate into significant reduction in many environmental costs through the design of more environmental friendly production process.
3. Environmental Accounting can promote more accurate costing and pricing of products.
4. Environmental Accounting can attract more investors because investors sometimes need information on environmental performance and expenditure to make decisions.
5. Environmental Accounting may attract incentives from the government in form of tax reduction and subsidies.
6. Environmental Accounting can lead to the development of environment management system which is necessary for companies engaged in international trade. (e.g. 1SO 140001)

Recent empirical investigation into Environmental Accounting in some developed countries showed that there is significant progress in Environmental Reporting. The disclosure of environmental activities in these developed countries is now mandatory and confined by some regulations issued by professional bodies.

In UK, the Environmental protection Agency is now established to impose penalties or fines on those companies that fail to comply with the environmental legislation and regulation of the agency.

In the United States, information on environment costs in financial statement is expected to be disclosed by US companies because the US Securities and Exchange Commission (SEC) and Financial Accounting standard Board now require the disclosure of such information.

Companies and their officers and directors face substantial fines and penalties for the companies' failure to comply with environmental laws and regulations. Where a knowing violation is shown, the possibilities of significant punitive damage exist. In a case involving knowing contamination of subsurface waters used by local residents for drinking, the court levied punitive damages of $10 Million (Zuber and Berry-undated).

Unlike the developed countries, the developing countries are not prudent in their environmental management. Some of the regulatory bodies in these developing countries have not been able to evolve mandatory rules and regulations towards managing their environment effectively.

In Nigeria, there are several statutes regulating financial reporting of companies listed in the Nigerian stock exchange. Some of the statutes are:

1. Companies and Allied mailers Act 1990
2. Statement of Accounting Standard Board.
3. Investment and security Act 1999
4. Bank and other financial institution Act 1991
5. The insurance act 1997.
6. Security and Exchange commission Law issued by the Nigerian security and Exchange Commission.

None of the professional bodies, regulatory agencies or statutes regulating these companies has made the disclosure of environmental activities of companies mandatory.

The federal Government on its part in trying to improve environmental disclosure by companies has formulated several environmental laws through the ministry of environment and Natural Resources. However, the problem with developing countries (e.g. Nigeria) is not the enactment of laws and regulations but the implementation of the same:

A critical look at the Niger-Delta region of Nigeria will go to buttress the fact that the major cause of the militancy problem is as a result of poor environmental management. Punitive measures have not been taken against those companies that default the environmental laws.

Also the issue of corruption in these developing countries has led to the poor implementation of these environmental laws.

Despite these limitations to proper environmental management in developing countries, there is need for stakeholders to rise up to the challenge of ensuring that our environment is properly managed.

The environment, when well managed can be of great benefit to both the individuals and the companies. Some of the benefits include;

1. It can bring about increased turnover for the companies due to enhanced company and product image.
2. Environmental Accounting can make a company's share more attractive to investors due to enhanced company or product image and environmental risk rating.
3. Environmental Accounting can guarantee better borrowing access and terms from lending institution due to favourable environmental risk rating.
4. Environmental Accounting ensures compliance which in turn will minimize its exposure to future financial loss arising from environmental incidents.
5. Environmental accounting brings about an increase in the company's profile as a result of positive publicity in the area of environmental responsibilities.
6. Environmental Accounting can lead to new inventions because organizations can recycle what was formerly considered waste to invent a new product.

Concept of Sustainability and Environmental Accounting

The most quoted definition of sustainability is that, of the Brundtland commission Report. The definition as cited in Lange (2003:3), defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

For any society to experience sustainable development, they must make choices that will influence their way of life presently. This can then be translated into the future when such present choices are sustained.

Environmental Accounting; if made a choice by the government and regulating agencies can be a tool for a sustainable development in the nation. This is due to the fact that when companies are mandated to disclose the impact of their activities on the environment, it will help such companies to be environmentally conscious. When this choice made presently is sustained, it will definitely be translated into a sustained development to the society at large.

Recommendations

Based on the discussion above, the following recommendations may become useful:

1) Government should empower its regulating agencies to ensure adequate monitoring of the activities of corporate organizations within the country.
2) Environmental disclosure of the impact of organizational activities on the environment should be made compulsory by regulating agencies of these companies.
3) Defaulting companies should be sanctioned while companies that disclose their environmental activities should be encouraged with tax incentives by the government.

It is believed that the above recommendations if implemented will restore the confidence of the ordinary citizen in the government and the companies. It will also bring about a lasting peace in some troubled regions (e.g. Niger Delta) within the country.

Conclusion

It is necessary to note that no sustainable development can occur in a troubled environment. Since man exists within the confines of his environment and his existence dependent on the stability of that environment, there is need for a conscious effort towards managing the environment.

More so, companies should be meant to account for their activities as it affects the environment and subsequent punitive measures taken against erring companies.

Finally, companies should imbibe good Environmental Management Accounting Policies as it will not only enhance the management of the environment but also help in the proper management of their organizations.

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